

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-03 FRB-01

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-01 OPIC-02 SP-02

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FM AMEMBASSY MEXICO

TO SECSTATE WASHDC 4181

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E.O. 11652: N/A

TAGS: EFIN MX

SUBJ: EXTENDED PRICE CONTROL MECHANISM

REF: MEXICO 8229

PASS TREASURY

1. BEGIN UNCLASSIFIED. PRESIDENTIAL DECREE ON PRICE CONTROL PROGRAM PUBLISHED IN DIARIO OFICIAL ON OCTOBER 3 TO THE ACCOMPANIMENT OF CRIES OF ANGUISH AND THREATS OF LAW SUITS ON ITS CONSTITUTIONALITY BY SOME BUSINESS GROUPS AND CHEERS BY LABOR GROUPS. FIRST AMENDMENT PUBLISHED OCTOBER 4.

2. DECREE'S PREAMBLE ATTRIBUTES INFLATION TO DOMESTIC AND INTERNATIONAL FACTORS AND STATES THAT LATTER INDICATE INFLATION WILL NOT BE A PASSING PHENOMENON, BUT RATHER WILL BE OF INDEFINITE DURATION AND TO SOME DEGREE BEYOND GOM'S CONTROL. AMONG DOMESTIC FACTORS CITED ARE EFFECT OF ADVERSE CLIMATE CONDITIONS ON AGRICULTURAL PRODUCTION, RELATIVE INADEQUACY OF PUBLIC SECTOR RESOURCES TO FINANCE DEVELOPMENT, MORE RAPID INCREASE IN DEMAND THAN IN SUPPLY, AND CERTAIN PRICE ADJUSTMENTS IN PUBLIC SECTOR (I.E., GAS AND ELECTRICITY). PREAMBLE ALSO

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NOTED DANGER OF INFLATIONARY PSYCHOLOGY DEVELOPING AND RISK THAT

INFLATION MIGHT OFFSET MEASURES TAKEN IN FAVOR OF AGRICULTURAL WORKERS AND LABOR CLASS.

3. EXISTING MECHANISM REMAINS IN EFFECT FOR GOODS ALREADY SUBJECT TO PRICE CONTROLS - MOST UNPROCESSED FOODSTUFFS PLUS MILK, BREAD, SOFT DRINKS, CIGARETTES, MEDICINES AND PETROLEUM COMBUSTIBLES. NEW FLEXIBLE SYSTEM APPLIES TO LONG LIST OF WHAT APPEARS TO BE MOST PROCESSED OR MANUFACTURED GOODS, AND IS SAID TO INCLUDE OVER 400,000 SEPARATE ARTICLES.

4. FOR THOSE GOODS SUBJECT TO FLEXIBLE SYSTEM, PRICES AT PLANT, WHOLESALE AND RETAIL STAGES ARE TO BE FIXED AT SEPTEMBER 1 LEVELS. THEY CAN BE RAISED ONLY WHEN COSTS OF SELLING COMPANY RISE MORE THAN 5 PERCENT, AND IN PROPORTION TO AMOUNT OF INCREASED COSTS. ALL INCREASES MUST BE SUBMITTED TO MINISTRY OF COMMERCE AND INDUSTRY WHICH HAS 10 DAYS TO REJECT INCREASES ON GROUNDS OF INSUFFICIENT DATA, AND 20 DAYS TO DO SO FOLLOWING SUBMISSION OF REVISED DATA. RETAILERS MUST POST MAXIMUM PRICES FOR CONTROLLED GOODS.

5. TRANSITORY PROVISIONS OF DECREE REQUIRE ALL AFFECTED COMPANIES TO PROVIDE MINISTRY OF INDUSTRY AND COMMERCE A LIST OF THEIR PRICES IN EFFECT ON SEPTEMBER 1, WITHIN 30 DAYS, AND OBTAIN APPROVAL FOR ANY SUBSEQUENT INCREASES.

6. THE DAY FOLLOWING PUBLICATION OF THE DECREE, IT WAS AMENDED TO EXCLUDE SMALL BUSINESSES FROM THE BASIC REQUIREMENT OF OBTAINING MINISTRY APPROVAL FOR PRICE HIKES, AS WELL AS FROM POSTING THEIR PRICES. THE COMPANY IS EXCLUDED ON THE BASIS OF SALES ACCORDING TO CATEGORY OF GOODS, OF WHICH 138 ARE INCLUDED.

7. GOVERNMENT MOVED PROMPTLY TO ENFORCE NEW MEASURE BY SEIZING A LARGE VOLUME OF CIGARETTES FROM WHOLESALERS. THERE IS NOW A SHORTAGE OF CIGARETTES, ALBEIT ARTIFICIAL, IN THE RETAIL MARKET. END UNCLASSIFIED.

8. BEGIN LIMITED OFFICIAL USE. GOM'S EXPERIENCE WITH PRICE CONTROLS IN THE PAST HAS NOT BEEN VERY SUCCESSFUL, EXCEPT WHEN IT CONCERNS PUBLIC SECTOR COMPANIES IN A MONOPOLY POSITION, NOR HAS ENFORCEMENT BEEN VERY EFFECTIVE. FARMERS TEND TO KEEP LIMITED OFFICIAL USE

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PRODUCTS OFF MARKET OR BARTER THEM WHEN OFFICIAL PRICES BELOW MARKET PRICES. NEW UNDERTAKING WILL GREATLY TAX ALREADY INADEQUATE INSPECTION STAFF OF INDUSTRY AND COMMERCE MINISTRY, NOT TO MENTION ADMINISTRATION CAPABILITY. ENFORCEMENT EFFORTS WILL PROBABLY CONCENTRATE ON LARGER MANUFACTURING CONCERNS WHICH MAY BE ONE MAJOR REASON FOR COMPLAINTS FROM LARGE BUSINESS GROUPS, THE OTHER BEING A FEAR THAT EFFORTS OF GOM TO KEEP PRICES LOW WILL EVENTUALLY EAT INTO THEIR PROFITS IN SPITE OF

GOM STATEMENTS THAT THEY DO NOT WANT TO SEE PROFITS REDUCED. NEWSPAPER AD CAMPAIGN MENTIONED IN REFTEL HAS CONTINUED AND PRODUCED SOME ADS IN SUPPORT OF GOM INCLUDING ONE BY AN ECONOMISTS ORGANIZATION AND ANOTHER BY A COLLECTION OF GROUPS INCLUDING THE MARIACHI UNION, COMMERCIANTES RELIGIOSOS DE CATEDRAL, LOTTERY TICKET SELLERS ASSOCIATION PLUS SOME 60 ODD OTHER GROUPS, MOST OF WHICH APPEAR TO BE IN THE UNAFFECTED SERVICE SECTOR.

9. PRICE CONTROL MECHANISM WILL PROBABLY EXACERBATE GROWING TENSIONS BETWEEN INDUSTRY AND GOVERNMENT. CONCESSIONS TO BUSINESS IN COURSE OF EARLIER NEGOTIATIONS APPEAR TO HAVE BEEN LIMITED TO AMOUNT OF TIME THAT MINISTRY OF INDUSTRY AND COMMERCE HAS TO REJECT APPLICATIONS FOR INCREASES AND SUBSEQUENT DECISION TO EXCLUDE SMALL BUSINESSES IN CERTAIN INDUSTRIES.
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